

Google

Google Play

Alphabet Board Update
15 July 2020

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- Thank you Sundar. In the next 10 minutes I will briefly cover the state of the Play business starting with 1H'20 summary, then moving to our COVID response for users, our 2020 big bets and end with our risks and challenges.

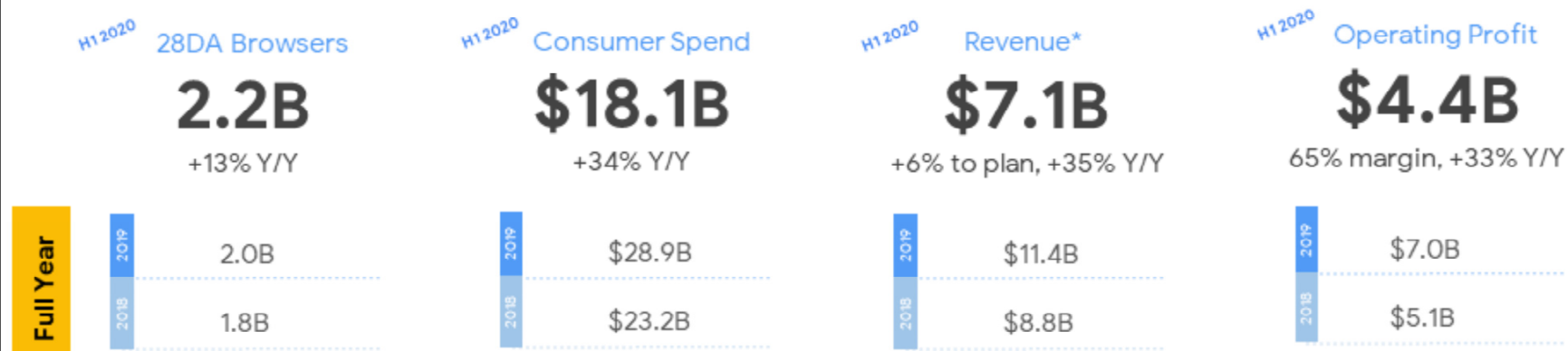
EXHIBIT 2728.R

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EXHIBIT 2728.R-001

Play is operating at scale: Over 2B users with \$92B paid out to developers since launch



\$s paid out to developers since launch

~\$92B

* inclusive of \$1.6B of ads revenue
Dev payout since inception of Play till June'20

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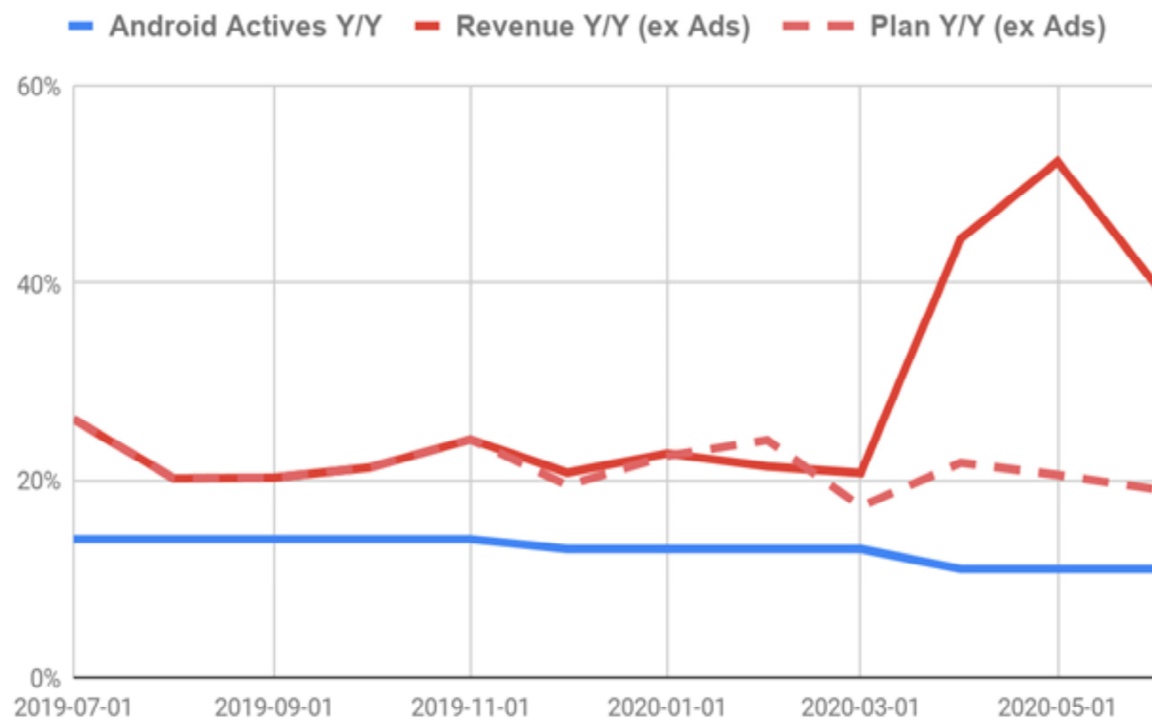
- Play is one of Google's largest user platforms and has been the primary destination for Android users to discover and consume outstanding digital experiences on their phones and tablets.
- Our users find Play helpful in a myriad of ways, whether they are seeking the apps to go about their lives, games and movies to entertain themselves along with their families.
- Since inception, Play has paid out ~92B to developers and closing in on the ~100B landmark by Q3. While creating value to the ecosystem, Play has maintained a healthy revenue growth rate (35% Y/Y growth in 2020 H1, with 7.1B in revenues) and a very active user base of (2.2B 28DA Browsers, 13% Y/Y growth)
- Play is one of the world's largest commerce platforms with >250M people transacting in an year, and also one of the most profitable businesses (>60% margin) and a key contributor to the Alphabet P/L

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EXHIBIT 2728.R-002

Play continues to improve monetization and grow revenue despite flattening Android growth



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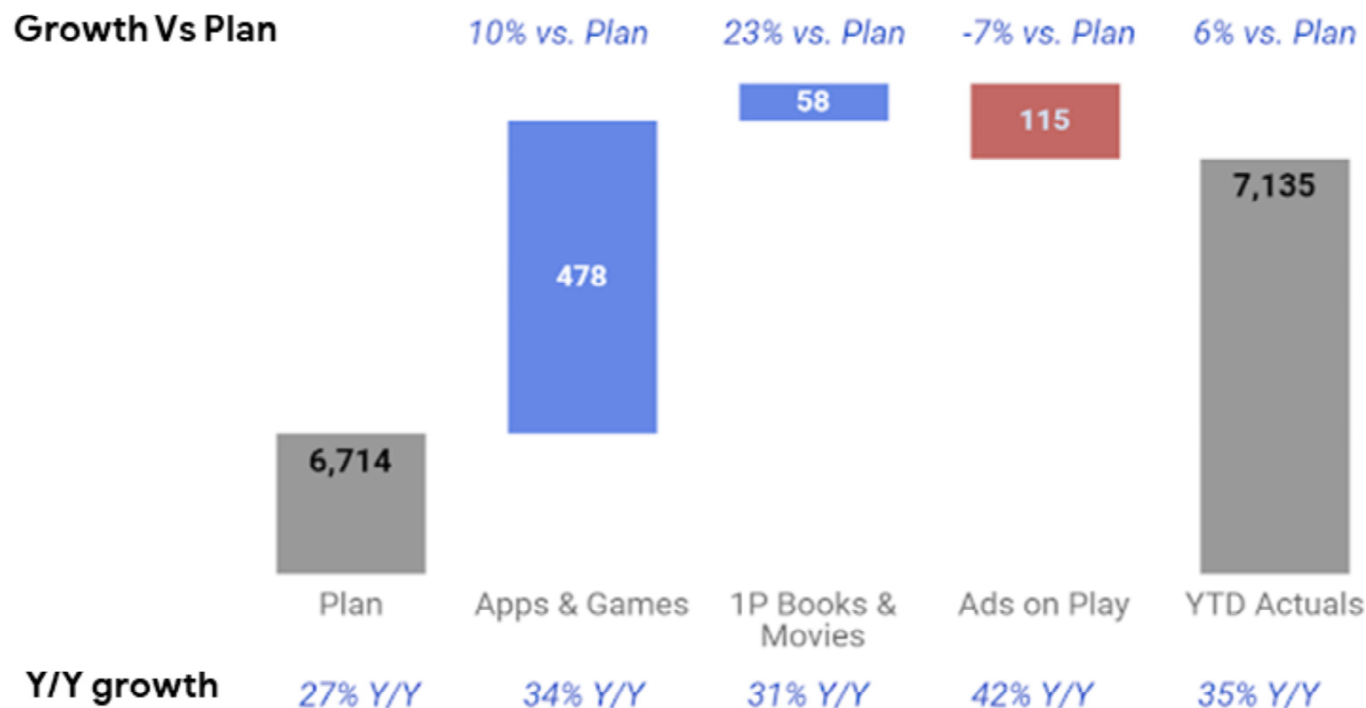
- As Sundar mentioned Play is having a good year so far. So far we are on track for our plan of \$14.2B in revenue for the full year, while sustaining >60% operating margins.
- At the left of the graph you can see our Q1 performance was roughly on-plan, growing 28% y/y.
- Towards the right at the start of Q2 you can see the effect of shelter in place orders that came into effect in multiple geographies. This had the effect of more users spending additional time on their phones which, in turn, led to more purchases of in-app subscriptions (like Disney+) and more purchases of items in games (like CandyCrush or Clash Royale). So shelter in place accelerated our growth to ~43% y.y in Q2.
- Towards the far right you can see the dip back down as shelter in place begins to lift in certain geographies like Europe and South Korea. A business reality for Play is that this unfortunate pandemic situation has caused many users to participate in in-app commerce for the first time. We have plans to retain as much of this activity as possible and I will touch on that in a bit.
- Overall 1H blended was ~35% y/y growth.
- One critical piece of context here is if you look at the Blue line -- that is Android 28da actives and what this shows is that Play has been growing in excess of Android growth. The growth on Play is coming from a concerted set of product and commercial activities that are driving new buyers and avg. spend per buyer up.

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EXHIBIT 2728.R-003

Our revenues are 6% over plan in H1, driven by a strong Q1 (28% Y/Y growth) and further acceleration in Q2 (43% Y/Y growth) due to shelter in place



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- As a reminder, Play has a few different parts to the business.
- The largest one is users purchasing in-app subscriptions (such as disney+) or buying virtual goods inside games (like candy crush or clash royale). As a reminder, Play typically earns between 15 - 30% of consumer spending on those kinds of in-app purchases and in 1H of 2020 our revenue share amounted to roughly \$5.2B. 85% of this comes from games although the apps category is growing very fast. This portion of the business is very healthy but I mention the revenue share percentages because we are getting pressure from some of our biggest developer partners to reduce those rates -- I will cover how we are addressing that in upcoming slides.
- Our 1P movie rentals and eBooks business also grew and saw a spike from shelter in place (\$309M 31% y/y)
- We also show app install ads inside Play. While Ads on Play are noted as -7%, it is mostly driven by an automated shift of spend from Play to other properties (YouTube, Search, Web) by Google's Ad systems (App promo ads at the Google level are ~103% in 1H'20).

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EXHIBIT 2728.R-004

Growth Drivers: Emerging markets contributing significantly to new buyers



(1) Emerging defined as Global excl. US, JP, KR, TW, CA, AU, HK and Western Europe

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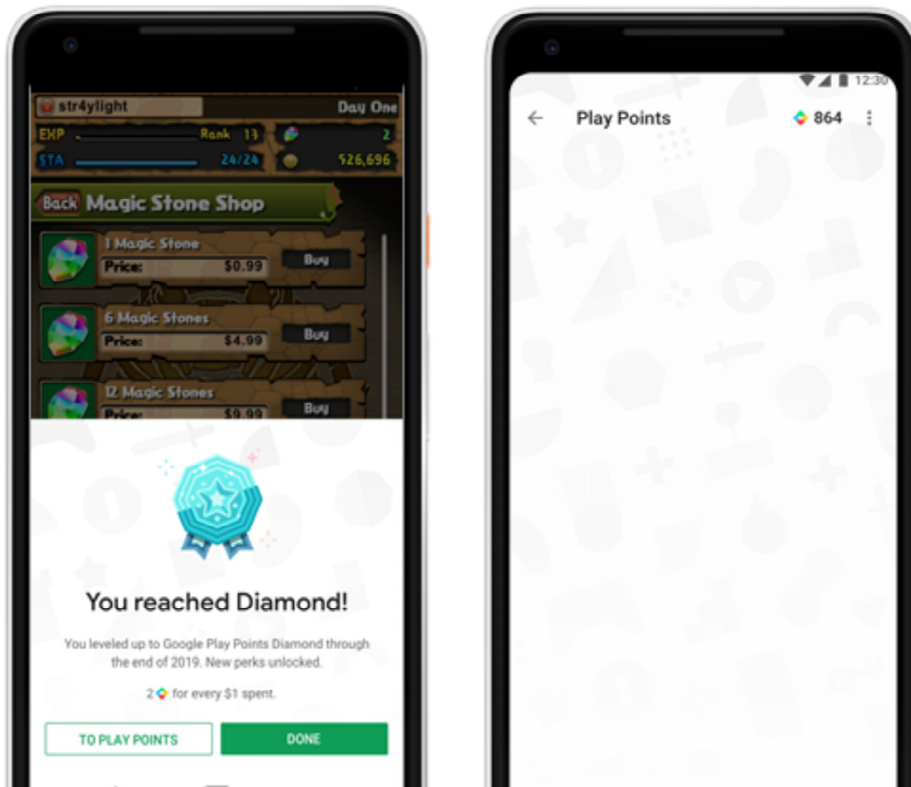
- Some highlights I'd like to call out here. Only 10% of active play users globally have a digital subscription or have purchased items in a game in the last 12 months -- this is doubled edged. Concentrated, but also huge opportunity to grow so we have been very focused on building new buyers and keeping existing buyers engaged.
- 19% of Play revenue and 47% of buyers are from emerging markets growing at 58% Y/Y and 66% respectively
- Global top titles like PubG and Free Fire have become popular in markets like India, Indonesia, Brazil, have helped accelerate user engagement.
- But monetization has been unlocked through key launches here supporting local FoPs enabling users in these regions to transact and participate in the digital economy. A highlight is UPI integration in India whose June 2020 spend is tracking at a \$136M run-rate (YTD spend = \$52M). Our gift card program has also been a critical asset here. With ~1M points of retail globally and over \$4B flowing through gift cards each year these instruments are often the way users who are unbanked convert cash into digital currency.

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Growth drivers: Buyer engagement and retention via Play Loyalty Program



- 37% Play spend coverage
- 46% HVUs* enrolled
- 5-7% Buyer churn reduction
- 10% Spend lift

* HVUs = >\$1500 spend in trailing 12 months

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- We have also invested heavily in retaining existing buyers, starting with developed markets and expanding to the developing world in the near future
- Last year we launched our Play Points Loyalty program in KR/JP which allows you to earn points for all spend on apps and games.
- And these points then can be redeemed for Play Credit and in-app virtual currency. This has been an excellent vehicle for us because we work with developers and they fund promotions to redeem those points for their in-app items or virtual currencies at a discount. (e.g. triple points for purchases this week or triple in-app value for redemption) Which creates reengaged buyers for developers and these promotions create more reasons for users to come back to the store more regularly.
- We've now expanded the program to the US / HK / TW.
- The program has been phenomenally successful leading a reduction of buyer churn of 5 - 7% and a 10% uplift in spend.
- It helps us create loyalty between the user and Google/Play which we believe will help reduce some churn from Android to iOS over time.

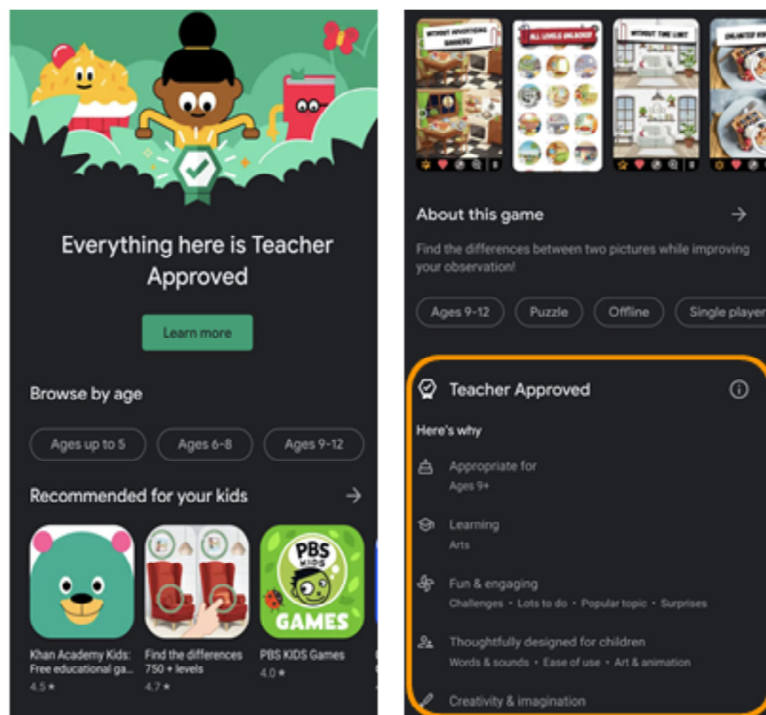
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EXHIBIT 2728.R-006

Play has made a set of adjustments to our priorities to address user and business needs around COVID

1. Teacher Approved Apps



2. Trust & Safety reviews for Contact Tracing Apps



- Deep security reviews for apps not using Google contact tracing API
- Requiring proof of government collaboration

3. Accelerating Loyalty Program to new markets



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- Play has taken a number of steps to support users during COVID but there are two major activities worth calling out:
- Accelerated launch of the Family/Kids section of the Play Store: With 60% of the world's student population out of school, we have seen a surge of parents seeking educational and entertaining content for children. To address this need we accelerated the launch of our new Family/Kids section of the Play store containing a new "Teacher Approved" rating system. Each app has been reviewed by teachers and categorized by age group to provide reference for parents-at-home use. This feature saw a significant performance improvements compared to other apps in the segment (+9% usage time/install, -22% uninstall rate)
- Contact tracing reviews and promotion: Google and Apple's joint effort to provide COVID exposure notification APIs (project Apollo) is live in 10+ markets (e.g., Germany, Italy, Japan etc) with multiple other countries soon to follow. We have also increased trust & safety reviews of Apollo based and non-Apollo based contact tracing / exposure notification apps to ensure these do not become a vector for abuse.
- Loyalty Expansion: With a surge in user engagement and buyer growth, we are accelerating the loyalty program to reach a wider user base to achieve 100M enrolled members by the end of 2021. This would cover nearly all HVUs* (90%), with >60% of Play spend coming from members, and we are developing additional ways for non-HVUs to participate.
- * HVUs = >\$1500 spend in trailing 12 months

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EXHIBIT 2728.R-007

Our strategic priorities for 2020 and beyond



1. Trust & Safety



2. Cross Google Developer deals



3. User Loyalty



4. Games beyond mobile

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- Turning now to the road ahead, we have 4 major strategic priorities. In the interest of time I'm going to quickly cover the first two in some detail.
- On trust & safety:
- A perceived Apple / iOS strength has been the safety and security of apps on the iOS platform and available through the App Store. Historically, Play had more permissive app publishing policies and more open Android APIs which has led to higher rates of content and malware abuse.
- Over the last 24 months there has been a focussed effort across content quality improvement, malware detection and enforcement of policy. We have made considerable progress in this area but I also want to acknowledge that the team feels we have a long way to go still.
- Some highlights I'd like to cite include:
- YTD we've cleaned out 104k bad apps that were putting users at risk that were on the Play store. Through our improved defenses we also prevented over 123k bad apps from ever publishing to the store in the first place.
- In 2019 we caught 3.7x more malware than the previous year and in specific categories like Ad Fraud there is an almost 7x improvement. Over \$70M in fraud on ad mob alone was stopped in 2020.

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EXHIBIT 2728.R-008

- Beyond malware we also continue to rollout policies on a quarterly basis that ensure legitimate developers are not asking for sensitive permissions they do not need and collecting massive amounts of data that are not necessary. For example a pizza delivery app should not be tracking your location in the background all the time even when the app is not in use.
- These policies are important but I will also point out it is difficult to claw back these kinds of activities from developers if they've been doing it for a long time. There is friction generated here in putting the toothpaste back in the tube as I like to call it.

Cross-Google deals (“Games Velocity Program”) has helped build stronger relationships with developers & Google



“Games Velocity Program”

3-5% effective Play revenue share to target partners, via GCP credit, Ads credit, co-marketing, and YouTube / eSports

Ease Play revenue share
agitation

Ensure titles launch on Play

Deepen x-Google relationships

Signed 16 Deals (out of 21 targets),
representing **18% of Play spend**

Growing Google Cloud Adoption
(~\$300M in new 3-yr commits across 4 partners)

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- Cross Google deals (Games Velocity Program) with top game developers providing increased value to both Google and developers while easing developer agitation on Play's revenue share
- Developers have been increasingly vocal about their concerns with platforms (iOS App Store, Google Play) charging 30% revenue share. We have found that, in gaming, the concerns over revenue share predominantly come from the largest players who have built significant businesses and are now focused on improving margins.
- In looking for a way to solve this we wanted to build a program that would address developer concerns around economics, while preserving the Play revenue share and also improving our relationship with these developers.
- The Games Velocity Program came out of this thinking. Effectively, GVP is a cross-Google deal structure where by Play takes 3 - 5% of the revenue share a developer would have owed Google and allows the developer to reinvest those dollars towards Google cloud credits, incremental Google ads spend, or co-marketing in Play.
- As an example, take Niantic, creator of one of the most successful mobile games to date (Pokemon Go). Niantic was preparing to launch their next major title (Harry Potter: Wizards Unite) in 2019, and asked for more support growing both titles. We also wanted to ensure Niantic would continue launching all future titles on Play, and improve their sentiment regarding Play revenue share and value. We deployed the Game Velocity Program, including several cross-Google "service packs", to amplify Niantic's success and deepen our partnership. Our package included Cloud credits, co-marketing, Ad

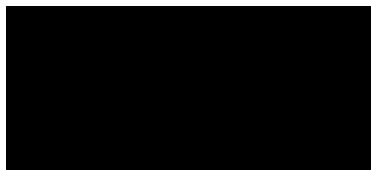
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EXHIBIT 2728.R-010

- credits, and YouTube content development funding. The total offer represented ~5% of Niantic's Play spend. In return, Niantic contractually agreed to launch all future titles on Play for 3 years, and increased their 3-year Google Cloud spend commitment from \$60M to \$100M (+67%). Niantic's sentiment towards Google and Play also improved, with their CEO (John Hanke) stating, "As a former Googler, I can appreciate how hard it must have been for Play to develop this comprehensive offer. I'm impressed. As a Google customer, this type of thinking makes me really happy"
- In aggregate, while we continue preserve our business model of 30% revenue share for Play, the credits back to the developer allow them to offset costs they had in other areas of their business and show overall P&L improvements while ultimately they end up spending incrementally more with Google overall.
- Overall we've seen an incremental \$300M in cloud spending from these accounts. We've also learned some ways to tune the program and will be utilizing a modified version of this program for app developers as well going forward.

Risks & Challenges



Revenue Share
Pressure



Flattening
Android growth

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- [REDACTED] & Revenue Share pressure
- [REDACTED]
- Of particular concern is challenges being made and expected to be made around Play's ability to require a service fee for the sale of digital goods and use of its Billing services for apps selling those goods. Game developers like Epic and App developers like Spotify have been vocal in their opposition. This manifests in [REDACTED] off Play distribution and/or monetization.
- Mitigation
- We are working to ensure our policies around our business model and who needs to participate are clear and consistent, as an important step in explaining the model. We are currently working with developers to clarify and address their concerns around economics with a combination of cross-Google deals (discussed above) and other tiered programs. We expect to make public announcements around these policy clarifications in August.
- We are actively investing in user loyalty to make Play the platform of choice, launched in 5 mkt's and expanding to many more
- We are signing/renewing rev share deals with OEMs to sustain the long term health of the Android ecosystem
- Slowing/ Flattening Android growth

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- Android shipment share declined in Q1 2020 across most developed regions with continued strength of iPhone 11. \$400+ segment continues to be concerning in the highest monetization countries and Apple gained +8 points of shipment share in the US (61% -> 69%), +11 points in EEA (42%->53%) and +5 points in JP (67%->72%) in Q1 2020. COVID 19 shelter in place restrictions have resulted in ~50M “missing new activations” and a slow down from OEMs in pushing letter updates, which affects Android freshness. These movements have not affected the Play business yet, however we are actively collaborating with the Android teams to mitigate long-term risks.

APPENDIX

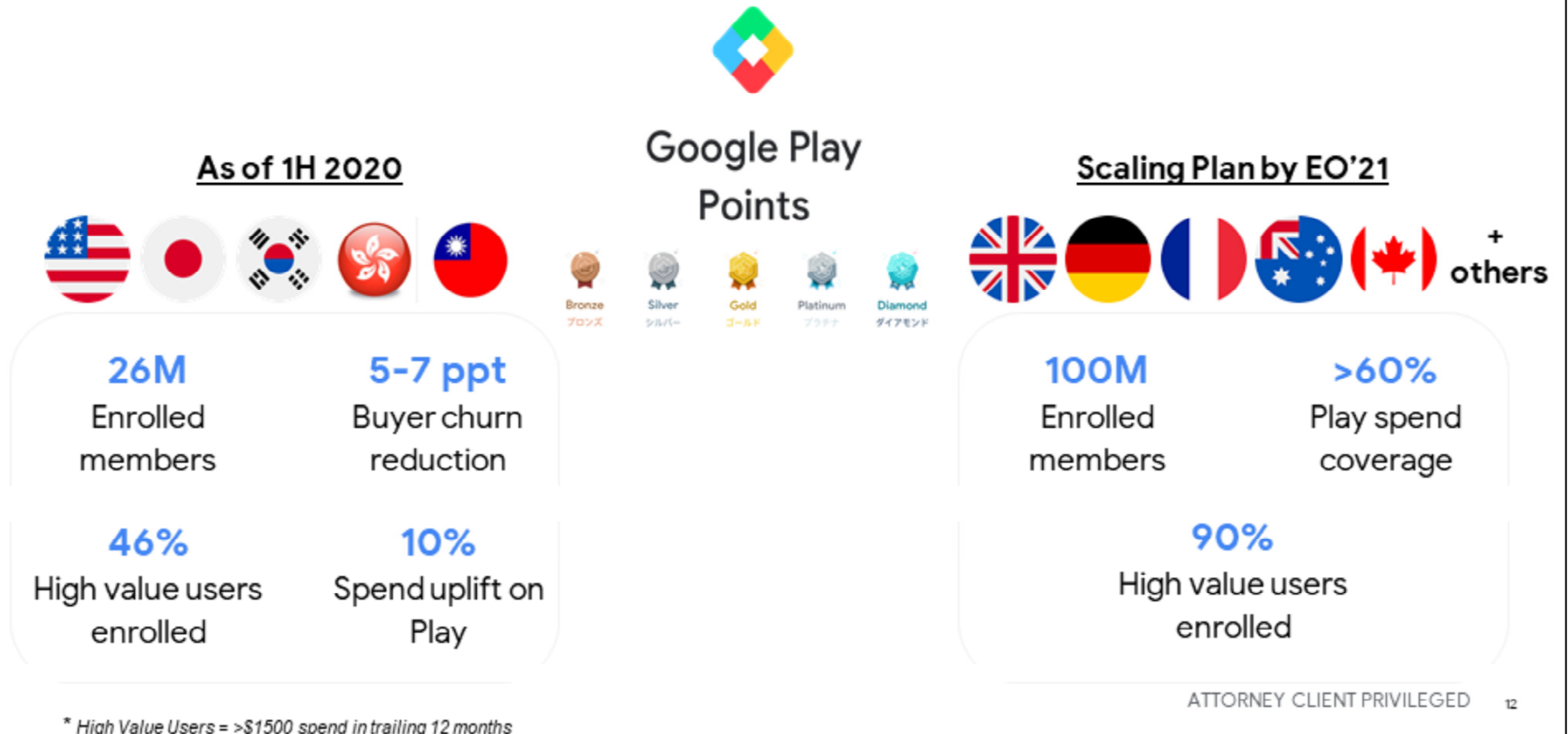
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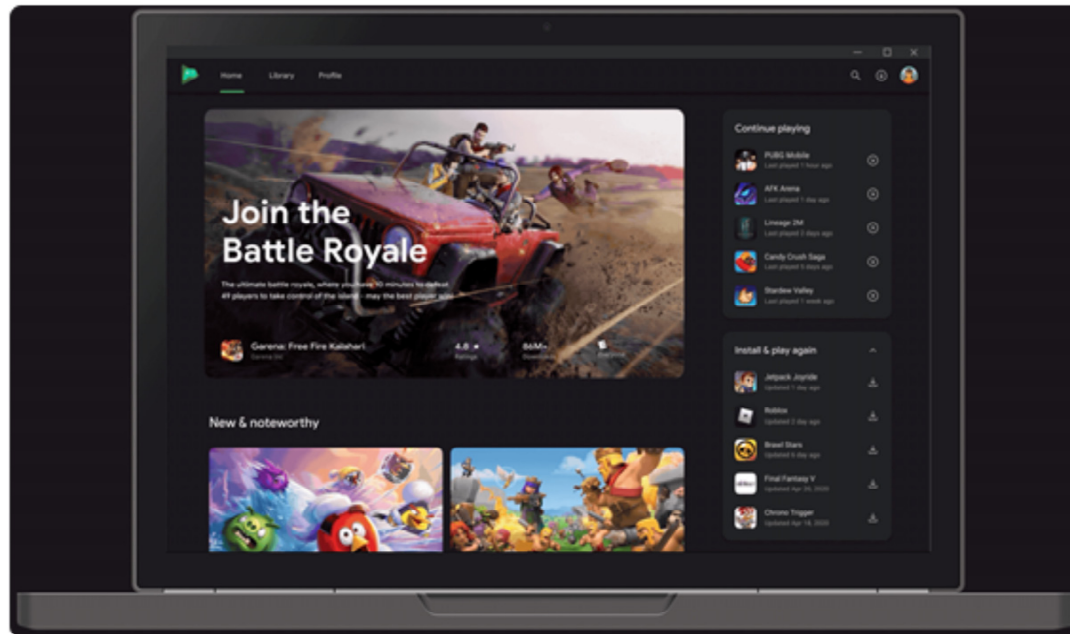
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3. We have launched Play points loyalty program to increase engagement and reduce buyer churn



- Our Play Points loyalty program is now live in 5 markets (JP, KR, US, TW, HK) and has been very successful covering 37% of total Play spend.
- User engagement in these markets is strong (~5-7% buyer churn reduction, ~10% spend uplift).
- We plan to scale the program to reach nearly all HVUs* (90%), with >60% of Play spend coming from members, and develop additional ways for non-HVUs to participate to achieve 100M enrolled members by the end of 2021.

4. We plan to expand games beyond Android devices through Windows and tap into the \$37B PC games market



Play emulates Android games on Windows: Pilot in 2021

Seamlessly play across mobile, desktop, laptop

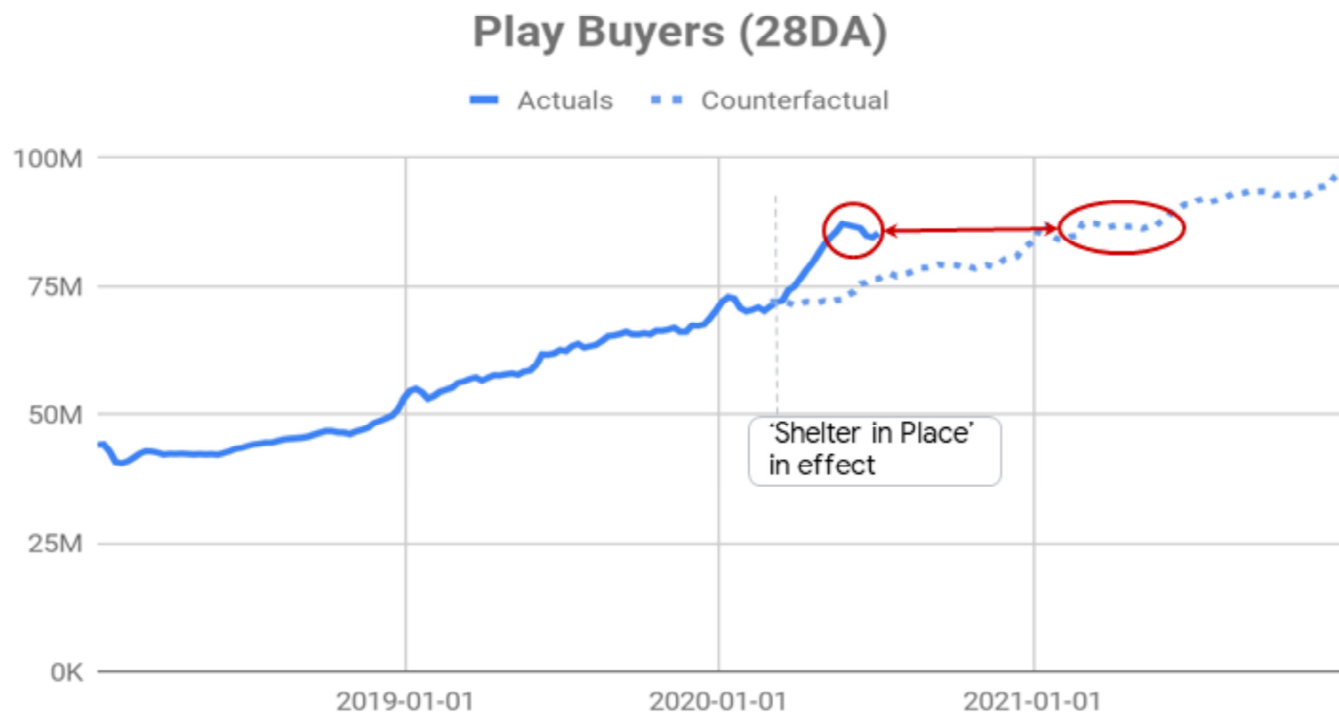
Enable PC user acquisition ads and attribution

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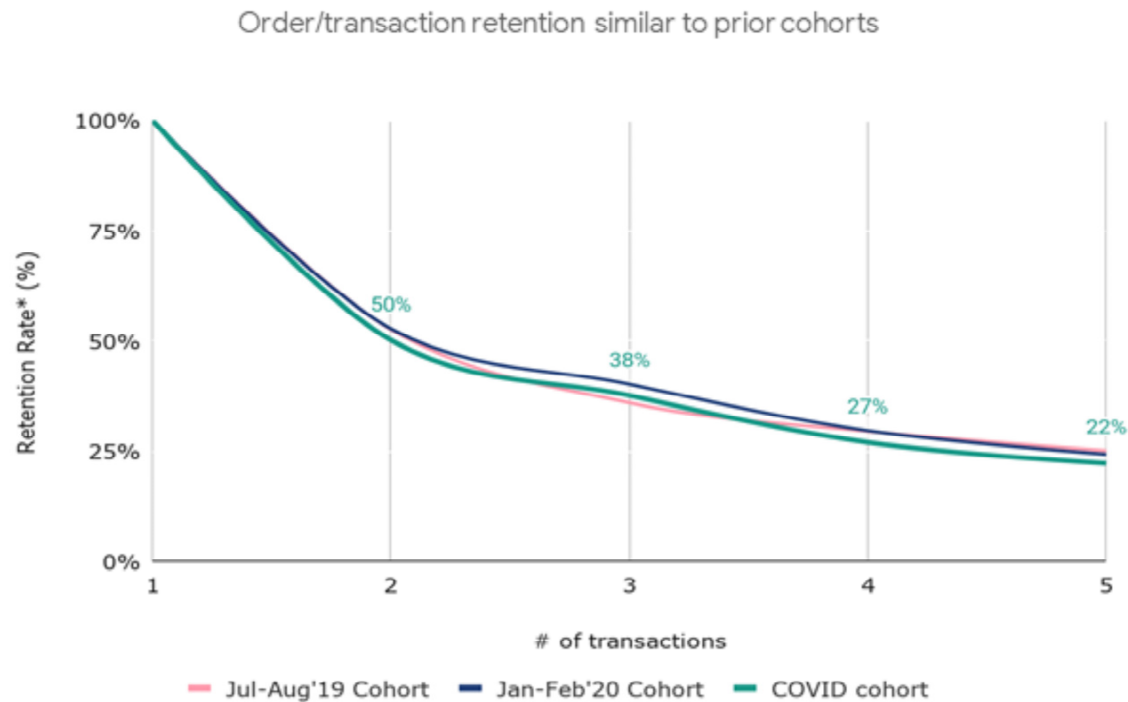
- Over the last several years we have seen traditional PC game developers bring titles to mobile for the first time. While this trend continues, we are also starting to see traditionally mobile game developers that want to distribute and have their games played on PC (desktop/laptop). Expanding game play from Android devices to Windows PC represents a major opportunity (\$37B global market for gaming on PCs) to expand our value proposition to users and developers as well as a chance to increase gameplay and Play revenue.
- The Play team is currently working on a pilot of Android games running on Windows via emulation and are planning a launch in 2021. Early developer feedback is extremely encouraging, as they expect us to solve one of the largest challenges they face on PC - user acquisition and ad install conversion tracking.

Play buyer base has fast forwarded by 6-9 months during COVID



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Order-to-order retention rates are similar to normal times



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